

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 NEA-14 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-03 COME-00 DODE-00 EB-11 FPC-01 H-03

INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 FRB-03 FEA-02

PRS-01 PA-04 USIA-15 CEQ-02 EPA-04 IO-14 DRC-01 /227 W

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R 020704Z AUG 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 3686

INFO USMISSION OECD PARIS

C O N F I D E N T I A L TOKYO 10061

E.O. 11652: GDS

TAGS: ENRG JA

SUBJ: JAPAN MAY LIFT OIL PRODUCT CONTROLS

1. IN MEETING WITH WILLIAM WALKER, GENERAL COUNSEL TO
FEDERAL ENERGY ADMINISTRATION, AND EMBASSY ECONOMIC/COMMERCIAL
OFFICER, TSUTOMU HIRABAYSHI, DIRECTOR OF COORDINATION,
RESOURCES AND ENERGY AGENCY, STATED HE HAD JUST COME FROM
INTERAGENCY MEETING ON PETROLEUM POLICY AND THAT THERE NOW
STRONG POSSIBILITY "ADMINISTRATIVE GUIDANCE" CONTROLS ON
CONSUMPTION AND PRICE OF MOST PETROLEUM PRODUCTS WOULD BE
LIFTED BEFORE END OF AUGUST. ON OTHER HAND,
HIRABAYSHI SAID "LEGAL CONTROLS" LIFTED IN JUNE ON RETAIL
PRICE KEROSENE AND PROPANE GAS, USED MAINLY TO HEAT PRIVATE
HOMES, WOULD BE REIMPOSED. (ACCORDING TO NEWS REPORTS
AUGUST2, MITI MINISTER NAKASONE AND PRIME MINISTER
TANAKA HAVE AGREED TO SET NEW CONTROLLED PRICE FOR
KEROSENE AT YEN 610-620 PER STANDARD UNIT OF 18 KILO-
LITERS, AND PROPANE AT YEN 1500 PER 1000 KILOLITERS)

2. HIRABAYASHI GAVE FOLLOWING REASONS FOR DECONTROL

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IN NEAR FUTURE:

A) DOMESTIC DEMAND FOR OIL PRODUCTS HAS LEVELED OFF AND EVEN DECLINED WHEN COMPARED WITH CORRESPONDING MONTH OF LAST YEAR (ACCORDING NEWS REPORTS, QUASI-GOVERNMENTAL OIL SUPPLY-DEMAND ADJUSTMENT COUNCIL EXPECTS DEMAND TO FALL 2.2 PERCENT JUNE-AUGUST AS COMPARED TO SAME PERIOD LAST YEAR);

B) OIL STOCKS ARE AT ALL TIME HIGH (OIL COUNCIL EXPECTS STOCKS TO REACH 68.9 DAYS AT END AUGUST);

C) UNDER ABOVE SUPPLY-DEMAND CONDITIONS, WHICH ORDINARILY WOULD LEAD TO EITHER A DECLINE IN PRICE OR PRODUCTION, OR BOTH, MITI RISKS ACCUSATION OF MAINTAINING PRICE FLOOR UNDER PETROLEUM PRODUCTS IN COLLUSION WITH OIL COMPANIES.

3. HIRABAYASHI NOTED THAT COMPANIES ASSERT THEY WILL LOSE ABOUT ONE DOLLAR PER BARREL IF PRICES REMAIN CONTROLLED AT CURRENT LEVEL INTO OCTOBER WHEN COST PRESSURES ARE EXPECTED TO OVERTAKE LOW COST RESERVE STOCKS. (IN SEPARATE CONVERSATION, ESSO JAPAN PRESIDENT YASHIRO CONFIRMED COMPANIES ESTIMATE THEY WOULD THEN BE ABSORBING AT LEAST ONE DOLLAR PER BARREL IF SUPPLY COSTS NOT PERMITTED TO BE PASSED THROUGH). JAPAN, HIRABAYASHI SAID, WILL HAVE TO FACE UP TO HIGHER OIL COSTS SOONER OR LATER ANYWAY, "SO PERHAPS NOW IS THE BEST TIME TO LIFT CONTROLS." IF OIL PRODUCTS DECONTROLLED NOW, PRICES EXPECTED TO DIP, AT LEAST IN IMMEDIATE FUTURE, WITH POSSIBLE EXCEPTION OF NAPHTHA.

4. QUESTIONED AS TO WHY JAPANESE REFINERS HAVE KEPT PRODUCTION LEVELS HIGH IN FACE OF DECLINING DEMAND, HIRABAYASHI OFFERED FOLLOWING EXPLANATIONS:

A) JAPANESE FIRMS ENTERED INTO SHIPPING CONTRACTS LAST SPRING IN ANTICIPATION OF CONTINUING WORLD CRUDE SHORTAGES. THESE CONTRACTS NOW BEING FILLED.

B) FIRMS HAVE LONG TERM CONTRACTS WITH MAJORS THEY CONFIDENTIAL

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EITHER CAN'T CANCEL, OR WON'T CANCEL FOR FEAR OF MAJORS' RETALIATION WHEN AND IF ANOTHER OIL CRISIS HITS.

C) MAINTAINING OR INCREASING MARKET SHARE ALMOST AS IMPORTANT, AND PERHAPS EVEN MORE IMPORTANT, OBJECTIVE THAN PROFITABILITY FOR MOST JAPANESE OIL FIRMS.

5. IN ANSWERTO WALKER QUESTION, HIRABAYASHI STATED

PROPOSED SAUDI AUCTION OF CRUDE IN AUGUST WOULD HAVE
NO AFFECT ON JAPANESE DECISION WHETHER TO LIFT CONTROLS.

6. COMMENT: AS DIRECTOR OF COORDINATION IN MITI'S
NATURAL RESOURCES AND ENERGY AGENCY, HIRABAYASHI IS A
KEY OFFICIAL IN ENERGY POLICY MAKING PROCESS. BUT A
DECISION TO DECONTROL PETROLEUM PRODUCT PRICES AND
CONSUMPTION WILL BE MADE AT POLITICAL LEVEL WHERE
TANAKA CABINET IS UNDER HEAVY FIRE FROM BOTH
CONSERVATIVE AND OPPOSITION QUARTERS FOR ALLEGED
INEPTITUDE IN ITS ECONOMIC POLICIES. WHATEVER DECISION
IS MADE, IT LIKELY TO BE TAKEN ONLY WITH VERY SHORT RUN
CONSIDERATIONS IN MIND--A FEW WEEKS AT MOST. DECONTROL-
LING NOW MAY LEAD TO A FALL IN GENERAL PETROLEUM PRICE
LEVEL, BUT WITH CONSUMPTION CONTROLS OFF, DEMAND RISING
AS WINTER APPROACHES, AND LOW COST STOCKS DEPLETED,
JAPANESE PEOPLE ARE PROBABLY IN FOR SOME BAD NEWS ON
OIL PRICES THIS FALL.
HODGSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTS, POLICIES
Control Number: n/a
Copy: SINGLE
Draft Date: 02 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TOKYO10061
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740210-0721
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740877/aaaacnuo.tel
Line Count: 134
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2002 by boyleja>; APPROVED <25 FEB 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: JAPAN MAY LIFT OIL PRODUCT CONTROLS
TAGS: ENRG, JA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005